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SUBJECT: ANRE'S HOSAKA "BORED" WITH EAST CHINA SEA  
DISCUSSIONS

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

1. (C) Summary. The eighth round of director- general level talks between Japan and China on May 25 over the disputed oil and natural gas deposits in the East China Sea broke no new ground. Japan expected a new proposal from China but none was proffered. The two sides will step up the frequency of their meetings in hopes of reaching a resolution before Prime Minister Shinzo Abe,s expected visit to China in the autumn.

Politics have not yet affected the talks although a Cabinet shuffle after the July 11 Upper House elections might change that. Japanese investment in East Siberian energy projects remains small. The Ministry of Economy, Trade and Industry,s June sale of shares in Japan Petroleum and Exploration Co. was decided in 2003 and therefore unsurprising. End summary.

"Bored" with Lack of Progress on East China Sea  
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2. (C) Ministry of Economy, Trade and Industry (METI) Agency for Natural Resources and Energy (ANRE) Petroleum and Natural Gas Division Director Shin Hosaka told Econoff on May 31 that despite positive media coverage of the May 25 director general-level (assistant secretary-level) meeting between China and Japan, he remained very skeptical and "bored" with the process. Ministry of Foreign Affairs Asian and Oceanian Affairs Bureau Director General Kenichiro Sasae and ANRE Director General Harufumi Mochizuki met with Chinese Foreign Ministry Department of Asian Affairs Director Hu Zhengyue for the eighth time to discuss joint development of the oil and natural gas deposits under the East China Sea. Sasae announced to the media afterward that the meeting was successful in deepening understanding between Japan and China. At the root of the discussion is the dispute over the boundary line delineating the two countries, exclusive economic zones (EEZs). Hosaka reported that the two sides agreed to convene director general-level meetings once a month and director-level (i.e., U.S. office director equivalent) meetings twice a month. The schedule of the next director general meeting is not yet decided but probably will be at the end of June in Tokyo.

Contrary to Expectations, No New Chinese Proposal

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13. (C) Japan was surprised and disappointed that China did not offer any new proposals for joint development of the East China Sea. Hosaka explained that Liberal Democratic Party (LDP) politicians Taku Yamasaki, Koichi Kato and Masahiko Komura had traveled to China on April 27-28 to meet with Chinese State Councilor Tang Jiaxuan who told them that China was preparing a new proposal for joint development of the natural resources in the East China Sea. As a result, the Japanese delegation did not prepare anything new and so was frustrated that China offered nothing during the May 25 meeting. Hosaka added that the Japanese oil company Teikoku Sekiyu is anxious to begin exploration of the disputed area but so far has refrained due to concerns over safety.

Abe,s Autumn China Visit a Motivation  
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14. (C) Hosaka noted that Prime Minister Shinzo Abe,s plans to visit China in the autumn to meet with President Hu Jintao is motivating both sides to find a resolution but Hosaka is highly doubtful this is possible.

Politics Could Start to Play Larger Role  
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15. (C) Asked whether the upcoming Upper House elections and possible Cabinet shuffle would have any effect on the talks, he said no, although he cautioned that this could change. If Abe's popularity continues to decline and LDP Policy Research Council head Shoichi Nakagawa, for example, who is a hard-line negotiator on China issues, were to take a more

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prominent role in the administration, politics might start to play a larger role.

Japanese Investment in East Siberia Remains Small  
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6 (C) Hosaka continued to maintain that Japanese investment in Russia's East Siberia is marginal. Currently Japanese companies are involved in two projects in the region, one with Russian gas major Gazprom and the other with oil major Rosneft. Hosaka said that ANRE plays the role of intermediary between Japanese companies and Gazprom in the downstream gas project that came out of the February 2007 ministerial meeting between Russian Industry and Energy Minister Viktor Khristenko and METI Minister Akira Amari in Tokyo in February 2007. Hosaka has no confidence in the Rosneft project involving a proposal for a Pacific coast oil refinery because Russian Minister of Economy and Trade German Graf has insisted many times there is not enough oil to fill a pipeline to the Pacific coast.

METI's Sale of JAPEX Shares Unsurprising  
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17. (C) Hosaka explained that the recent announcement about METI's plans to sell its shares in Japan Petroleum and Exploration Co. (JAPEX) should surprise no one because the Japanese government decided in 2003 to sell them. Now is the right time based on energy security and maximizing returns for the government and the Japanese people. The current market environment is very good, he said, so the government has decided to reduce its stake in JAPEX from 49 percent to 34 percent. METI's remaining one-third ownership ensures that METI can maintain its influence in the company were China or Russia, for example, to buy up some of the shares.

Comment  
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18. (C) The East China Sea talks drag on with neither side willing to alter its position on where joint development

might occur in the East China Sea. Hosaka's comment that he is "bored" is indicative of the inflexibility in both Beijing and Tokyo on the substance of the East China Sea issue despite the ostensibly successful visit by Chinese Premier Wen Jiabao in April and the Abe-Hu summit planned for the fall.

SCHIEFFER